EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to commentletters@efrag.org by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.

Your details

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

CNP Assurances

Jean-Michel Pinton
Group Accounting Officer
E-mail: jean-michel.pinton@cnp.fr

(b) Are you a:

☒ Preparer ☐ User ☐ Other (please specify)

CNP Assurances understands the high-quality work and recommendation of EFRAG about IFRS 9 assessed on its own. However, our answers, notably to the questions dealing with the technical criteria leading to the advice of endorsement, are governed by the fact that we affirm that the benefits of IFRS 9 cannot be assessed in isolation of its combined effects with current existing standards, and particularly IFRS 4. Therefore, although the group can globally concur with EFRAG's assessment that IFRS 9 meets the technical criteria for endorsement, we consider that it does not do so if the impact on the financial statements of the insurance industry is separately examined. In other words, the improvements of replacing IAS 39 for all other industries no do offset, from our point of view, the drawbacks of implementing IFRS 9 as of 2018 simultaneously with the current existing insurance standard.

(c) Please provide a short description of your activity:

CNP Assurances, the parent company of the Group "CNP Assurances", is a société anonyme (joint-stock company) with a Board of Directors, governed by the French Insurance Code (Code des assurances).It has fully paid-up share capital of €686 618 477. The Company is registered in the Paris Trade and Companies Register under no. 341 737 062.
The registered office is located at 4, place Raoul-Dautry, 75015 Paris.
The consolidated financial statements for the year ended 31 December 2014 include the financial statements of the Company and its subsidiaries, as well as the Group's interests in the results and net assets of jointly-controlled entities and associates. They were approved by the Board of Directors on February 18th, 2015. Key figures as at December 31st, 2014 are the following:

- Total balance sheet: € 395,401.2 millions
- Total earned premiums: € 30,537.7 millions
- Total net income: € 1,079.8 millions
- Net interest income: € 7,081.5 millions
- Number of employees : 4 705

The Group's principal business is the writing of personal insurance. CNP Assurances' corporate purpose is to:

- write life and endowment insurance;
- write bodily injury insurance covering accident and health risks;
- Hold majority interests in insurance companies.

(d) Country where you are located:

France, Paris

(e) Contact details including e-mail address:

Jean-Michel Pinton
Group Accounting Officer
E-mail: jean-michel.pinton@cnp.fr

Nicolas Sztykgold
Accounting Group
E-mail: nicolas.sztykgold@cnp.fr

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

CNP Assurances has conducted its assessment from the sole perspective of being an insurance group, as a preparer and an investor.

Although it can globally concur with EFRAG's assessment that IFRS 9 meets the technical criteria for endorsement, the group considers that it does not do so if the impact on the financial statements of the insurance industry is separately examined. In other words, the improvements of replacing IAS 39 for all other industries no do offset, from our point of view, the drawbacks of implementing IFRS 9 as of 2018 simultaneously with the current existing insurance standard.

The limited benefits (introduction of business model but insufficiently, prospective impairment, better designed hedging accounting) do not compensate the following major drawback of that implementing IFRS 9 would decrease understandability and relevance of the financial statements of an insurance company because of the two main additional accounting mismatches when applied with current insurance standard and therefore, additional spurious volatility of PoL. As explained to our comments to the follow-up field test of IFRS 9 conducted by EFRAG, this mismatches arise from accounting for equity and non-SPPI assets at FV-PL with no related accounting changes in the accounting of insurance liabilities. No true and fair view of the asset and liability management will be presented in the financial statements.

We therefore highlight the comment of EFRAG in Appendix 3 of in the draft endorsement advice that requiring an insurer to apply IFRS 9 before the effective date of the future insurance contracts standard "has the potential to significantly reduce the quality of information available to users."

Only, once the alignment of the effective dates for these standards is allowed and the final insurance standard finalised that one will be able to conclude on the assessment of IFRS9 for the insurance industry. Alignment of effective dates is vital for insurers for the supplementary reasons outlined by the CFO Forum:

"□ Both IFRS 4 Phase II and IFRS 9 are fully linked and both are significant to insurers – implementing these significant changes in a short period after each other is inefficient and confusing to users.

□ If IFRS 9 were to be implemented before IFRS 4 Phase II, the classification will be reassessed when IFRS 4 Phase II is adopted which effectively results in IFRS 9 being implemented twice. This will create confusion with users and impair the relevance and transparency of the financial statements during this period.

□ It is currently not possible for an insurer to apply IFRS 9 and early adopt IFRS 4 Phase II as the latter standard has not been completed yet and, once completed, its implementation will take considerable time."

3 EFRAG's initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Although we agree with the prudence in prospectively accounting for impairment instead of exclusively accounting for incurred losses, we do not think that it is prudent accounting when:

- The implementation of a standard in isolation with related other items i.e. insurance liabilities leads to additional accounting mismatches;
- The implementation of a standard leads to additional FV-PL accounted for assets that would have been otherwise accounted for FV-OCI:
  - Because of impossibility of recycling dividends for equities, insurance companies will have to choose between i) revenues & spurious volatility OR ii) no revenues & no volatility of PoL;
  - Stringent SPPI test and disappearance of bifurcation leads to potential recognition of revenues of bonds portfolios with no link to the accretion of the benefit credited to policyholders.

(b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

See above.

(c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

See above.

The European public good

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

IFRS 9 compared to IAS 39

5 EFRAG's initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Consistently with our answer to question 2a, we do not think it is conducive of public good to:

- Have a specific industry i.e. insurance industry to prepare financial statements with embedded excessive and procyclical volatility;
- Have restraint to long term investments because of not being able to recycle revenues of FV-OCI equities.

Public good will be reached if effective dates for IFRS 9 and future insurance standard are aligned and a high-quality insurance standard finalised.

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We would like to highlight some mentioned or not mentioned points in Appendix 3:

- The expected potential implementation costs of the ECL impairment model for high-quality bond portfolio are high compared with the benefit of anticipated impairment. It does outline the need first to align effective dates of IFRS 9 and new insurance standard if one does not want to incur additional costs;
- The prevalence of SPPI test over the business model is detrimental to the accounting of assets in which insurers invest for long term purposes. We would have preferred a prevalence of business model over SPPI test;
- There is therefore the notable consequence of accounting of some puttable financial assets such as investments in non consolidated funds. Because these funds do not also qualify as equity financial assets and are not eligible to the SPPI test, they will be accounted for at fair value through P&L. The prevalence of the SPPI test over the business model leads to this accounting;

- The simultaneity of the deletion of bifurcation of not-closely-related embedded derivatives and of a stringent SPPI test leads to significant reclassification at initial implementation;
- We have concerns about the restrictiveness to reclassify assets whereas external circumstances could lead to revise the business model underlying the accounting;
- Finally, we would like to raise the issue of combined accounting ECL model and supervisory rules since we have not performed or assessed the interactions of two regulations that both embed an expense/charge for impairment. The combined effect on the capacity to invest, for instance, in loans to SME and more generally to support the financing of the economy has to be closely watched;
- This later point could be highlighted by the required analysis of "point-in-time" of IFRS 9. If ECL's forward looking is seen as an improvement, an excessive reliance on instant market data instead of an analysis "through the cycle" could bring procyclical effects that could be detrimental to investing into the economy.

In addition to the question of the assessment of public good, we do not think it is conducive of the latter to – notably for the preparers and the users of the accounts – to see an industry implement two separate significant standards within a pattern of two to three years (2018 for IFRS 9, 2020 or 2021 for insurance contract standard).

The lack of convergence with US GAAP

6 EFRAG's initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

None

Impact on investor and issuer behaviour

7 EFRAG's analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

None.

Inter-relationship of IFRS 9 with the future insurance contracts standard

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

We are of the opinion that the European Commission should request the IASB to permit the deferral of the effective date of IFRS 9 for insurance businesses and to align it with the effective date of the future insurance contracts standard.

However, if the Board of IASB was not following this request, we ask that the European Commission considers a deferral in Europe for insurance companies.

(c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

CNP Assurances has contemplated all technical potential solutions (extension of shadow accounting, improvements permitted by current insurance standards, use of Solvency 2) but none have been proved to sufficiently mitigate the additional spurious volatility while preserving a sufficient high level of significance of the financial statements. Deferral of IFRS 9 is the sole and most relevant technical solution to tackle the issues raised in our answer to question 2a.

On this matter, we concur with the answer to question 9c. that the French standard setter has provided.

We have had a look at the papers that the staff of the IASB has written for the June IASB meetings in order to consider the technical questions that such a deferral entails.

As a first tentative assessment to determine the perimeter to which this deferral would apply, the group sustains the approach based on a legal entity level (approach 2 raised by the IASB paper 2G in June 2015). Actually, in Europe, only an insurance entity can underwrite some insurance contracts.

For insurances companies which belong to a conglomerate which would apply IFRS 9 by 2018, we do not foresee significant accounting or presentation issues.

Indeed, segment reporting permit to differentiate and separately disclose the different activities (insurance and non-insurance) of a conglomerate in their consolidated financial statements. Based on our own experience (3 consolidating – equity-method – shareholders being financial institutions), we do not see the issue of transfers of financial assets between insurance and non-insurance segments as significant. Moreover, one could find ways to prevent any arbitrage between segments that a deferral of IFRS 9 for insurance companies could trigger if one is afraid of this. IFRS 8.27(a) would also lead to provide appropriate disclosures on the basis of accounting for such transfers.

European carve-out

10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

None.

Costs and benefits of IFRS 9

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG's initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

> As long as implementing effective dates of IFRS 9 and new insurance contracts are not aligned, we disagree with the assessment of EFRAG.
>
> Costs and efforts for insurers to implement twice IFRS 9 would result in undue efforts and, we think, to some of the users of the financial statements of insurance companies.
>
> When participating to the follow-up field test, CNP Assurances has notably outlined that several constraints contribute to the complexity of the implementation of IFRS 9. When considering comparison of preparers implementing IFRS 9 with preparers deferring IFRS 9 – such as the request for insurance companies – one have to bear in mind that an implementation of the sole ECL model requests an analysis performed line by line because of the needs to follow up financial income on a contractual basis, the fiscal constraints, the supervisory returns, the local gaap accounting and the asset and liability management.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG's initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

☐ Yes ☒ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

> We agree in general with EFRAG's assessment of the benefits of IFRS 9. However, we do not believe that this is the case for insurers if IFRS 9 is implemented independently from the future insurance standard (please see our answer to question 2a.).

13 EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

☐ Yes ☒ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

In consistency with our previous answers although EFRAG's assessment is certainly accurate for other constituents.

Overall assessment with respect to the European public good

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

☐ Yes ☒ No

If you do not agree, please explain your reasons.

In consistency with our previous answers although EFRAG's assessment is certainly accurate about IFRS 9 supporting European public good. As mentioned in Appendix 3, a deferral for insurers is also part of the goal of assuring European public good.

Other issues for consideration

Request to provide quantitative data on a confidential basis

15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG's field-work policy which is available on the EFRAG website.

The group CNP Assurances has been actively participating in field tests organised by EFRAG and sustain the tremendous work of the latter. We therefore concur with this request in order to gather quantitative data from many constituents.

Should endorsement be halted until quantitative data are available?

16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Some insurance groups, notably members of the CFO Forum, have already produced sufficient data sustaining the request to defer IFRS 9 for insurance companies. Besides insurance companies, we are not aware of significant constituents or industries opposing the endorsement. Therefore, we do not think once has to produce more data for the European Commission to reach a conclusion.

Should early application of IFRS 9 be prohibited?

17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

If the IASB had finalised the new insurance contracts standard earlier – notably by taking into consideration the alternative model proposed by CNP Assurances in its answer to ED07/2013 – we could have envisaged to early adopt IFRS 9; however, the proximity of 2018 does not permit anymore this dual implementation in such a short timeframe. Nevertheless, the group is of the opinion of EFRAG about this possibility to early adopt IFRS 9.